

ALGONA MUNICIPAL UTILITIES

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

December 31, 2013

T. P. ANDERSON & COMPANY, P.C.
Certified Public Accountants

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**OFFICIALS
ALGONA MUNICIPAL UTILITIES**

December 31, 2013

<u>Title</u>	<u>Name of Official</u>	<u>Term Expires</u>
Chairman	Jay Geving	May 2015
Chairman Pro Tem	Walter Krahenbuhl	May 2017
Trustee	David Golwitzer	May 2018
Trustee	Karen Schaaf	May 2014
Trustee	Julie Murphy	May 2019
General Manager	John Bilsten	
Comptroller	Brien Rindone	



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Algona Municipal Utilities
Algona, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of Algona Municipal Utilities, a component unit of the City of Algona, Iowa as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Algona Municipal Utilities, as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting

As described in Note 19 to the financial statements, Algona Municipal Utilities changed the method of accounting for bond issue costs. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and budgetary comparison information* on pages 4-8 and 38-40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the other information, including the comparative summaries of electric, water and communication statistics are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The comparative summaries of electric, water, and communication statistics have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2014 on our consideration of the Algona Municipal Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Algona Municipal Utilities internal control over financial reporting and compliance.

JP Anderson & Company, P.C.

July 7, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Algona Municipal Utilities (AMU) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2013. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- ◆ AMU's operating revenues increased by 4%, or approximately \$560,000 from calendar year 2012 to calendar year 2013.
- ◆ Operating expenses increased by 9%, or approximately \$1.3 million in 2013 from 2012.
- ◆ AMU's net position decreased 4%, or approximately \$949,000 during 2013.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of AMU's financial activities.

Fund Financial Statements report AMU's operations by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of AMU's budget for the year.

The supplementary information, the Schedule of Expenditures of Federal Awards, provides details of various federal programs benefiting Algona Municipal Utilities.

The Other Supplementary Information in Schedules 1 through 3 is unaudited and provides detailed information about the usage levels of each utility.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Fund Financial Statements

AMU utilizes one kind of fund:

- 1) Proprietary funds account for AMU's enterprise funds. Enterprise Funds are used to report business type activities. AMU maintains three Enterprise Funds to provide separate information for the electric, water, and communications funds; all are considered to be major funds of the utility.

The required financial statements for proprietary funds include a statement of net position, a statement of revenues, expenses and changes in fund net position and a statement of cash flows.

The condensed statement of net position, shown below, shows how assets and liabilities have changed from 2012 to 2013. Current assets (including restricted cash) decreased approximately \$5.9 million from 2012 to 2013,

due primarily to the use of bond proceeds for various construction projects during the year. Total assets decreased \$1,332 while liabilities decreased by \$383,000 resulting in the decrease in net position of approximately \$949,000 dollars during the year.

Net Position of Business Type Activities (Expressed in Thousands)		
Year ended December 31,		
	2013	2012
Current and other assets	\$ 13,993	\$ 19,883
Capital assets (net of depreciation)	36,371	31,813
Total assets	50,364	51,696
Long-term debt outstanding	20,362	20,529
Other liabilities	4,473	4,688
Total liabilities	24,835	25,217
Net position:		
Invested in capital assets, net of related debt	17,881	19,190
Restricted	3,410	1,709
Unrestricted	4,238	5,580
Total net position	\$ 25,529	\$ 26,479

INDIVIDUAL MAJOR FUND ANALYSIS

As AMU completed the year, its enterprise funds reported a combined fund balance of \$25.5 million, a decrease of approximately \$949,000 under last year's total of \$26.5 million. The following are the major reasons for the changes in fund net position of the major funds from the prior year:

- For the year, the Electric Fund total revenues were \$11.9 million, an increase of approximately \$400,000 from 2012. Sales to customers actually increased about \$707,000, while the Sales for Resale increased \$63,000.

Operating expenses were up in 2013 by approximately \$1.1 million. The main areas of focus for the increases were purchased power related costs. The purchased power and transmission costs increased \$903 thousand during 2013.

For the year the Electric Utility net position decreased \$821,000.

- At year end, the Water Fund had approximately \$1,099,000 in total revenues which was up from \$1,039,000 in 2012; an increase of \$60,000. The Water Fund's operating expenses for 2013 increased by \$178,000 to \$963,000. Total Revenues increased due to an increase in Sales to Customers. The operating expenses decreased in 2013 due to normal operations.

The Water Utility net position increased approximately \$87,000 to approximately \$3.2 million in 2013.

- In the Communications Fund for the year, revenues were down by \$250,000 (\$3,207,000 in 2013 and \$3,458,000 – 2012). The customer counts are as follows: Cable – 1,858 and 1,873; Internet – 1,873 and

1,836; Telephone – 1,529 and 1,580; for the years ended December 31, 2013 and 2012, respectively. The fund's operating expense for the year was \$3,212,000, up from \$3,204,000 (an increase of \$8,000). The increased operating expenses were due mainly to increased headend programming costs. For the year, the fund showed a decrease in net position of \$227,000.

The following analysis focuses on the change in net position for the combined divisions of AMU.

Changes in Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2013	2012
Revenues:		
Program revenues:		
Operating revenue	\$ 15,807	\$ 15,246
General revenues:		
Unrestricted investment earnings	138	148
Grant proceeds	202	552
Other general revenues	51	49
Total revenues	16,198	15,995
Program expenses:		
Business type activities	17,147	16,131
Total expenses	17,147	16,131
Increase (decrease) in net position	(949)	(136)
Net position beginning of year	26,479	26,615
Net position end of year	\$ 25,530	\$ 26,479

BUDGETARY HIGHLIGHTS

AMU did not amend their budget during 2013.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets –

At December 31, 2013, AMU had approximately \$36.4 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is an increase (including additions and deletions net of depreciation) of approximately \$4.6 million, or 14 percent, over 2012.

Capital Assets of Business Type Activities at Year End (Expressed in Thousands)		
	Year ended December 31,	
	2013	2012
Land	\$ 319	\$ 319
Construction in progress	8,239	5,137

Buildings and improvements	2,036	2,036
Equipment and vehicles	768	768
Infrastructure	25,010	23,553
Total	<u>\$ 36,372</u>	<u>\$ 31,813</u>

The largest additions to capital assets included continued capital improvements at Neal 4.

LONG TERM DEBT/LIABILITIES

At December 31, 2013, AMU had approximately \$18 million in revenue bonds outstanding. AMU's liability for deferred compensation increased from approximately \$237,000 to \$328,000.

Outstanding Debt of Business Type Activities at Year End (Expressed in Thousands)		
	Year ended December 31,	
	2013	2012
Revenue bonds	\$ 17,688	\$ 17,975
Deferred compensation	328	237
Total	<u>\$ 18,016</u>	<u>\$ 18,212</u>

At December 31, 2013 and 2012 the Communications Fund owed the Electric Fund \$3,440,000 under an interfund loan agreement established to finance the AMU broadband telecommunications network. The loan agreement calls for interest to accrue at 3.58% per year and to be repaid within 180 months.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Algona Municipal Utility's appointed officials consider many factors when setting the calendar year 2013 budget including fees that will be charged for the services the Utilities' provide, future expansions, and capital improvements.

These factors were taken into account when adopting the budget for fiscal year 2013. Amounts available for appropriation in the operating budget are \$17.7 million, an increase of 2 percent from the 2012 budget. The budget is likely to closer reflect the cash receipts received as estimated based on 2012 results and projected usage from customers. Budgeted disbursements are expected to decrease by approximately \$4.36 million. Again, the 2013 budget was set to more closely reflect the actual results as estimated based on 2012 results and expenditures on improvements to the Utility Infrastructure.

Algona Municipal Utilities remains committed to investing in the necessary capital improvements and major maintenance items on each distribution system enabling continued delivery of the utmost in reliable products and services. Some examples are listed below:

- Algona Municipal Utilities Electric and Communications department completed an extensive reconstruction project encompassing a 24 block area of downtown Algona. The project included conversion from overhead to underground electric, construction of fiber to the premise and joint paving of alleys with the City of Algona in an 8 block area. The completed project increases efficiency and reliability within the electric distribution system. The fiber to the premise portion of the project increases bandwidth potential for the ever growing demand of Internet bandwidth.

- AMU will expand the fiber to the premise system throughout the entire communications service territory in future years.
- AMU is continuing to deploy its Advanced Metering Infrastructure (AMI) through replacement of electric and water meters, and a new meter reading system. Algona Municipal Utilities is benefitting from participation in a US Department of Energy (DOE) Grant through the Iowa Association of Municipal Utilities (IAMU).
- Algona Municipal Utilities and Skylink upgraded the cellular service in Algona to provide 4G service.
- Algona Municipal Utilities is looking to provide advanced telephone service to Algona while being able to reduce our operating costs.
- Each year, the water distribution system replaces undersized water mains and continues to loop the distribution system. These improvements to the water distribution system increased fire protection, enhance water quality and provide increased water pressure and flow to a growing water distribution system. System improvements are also accomplished each year to serve new development in Algona.
- The addition of a scrubber/baghouse and turbine upgrades at the George Neal Generating Station #4 reduce the environmental impact of the generating facility while extending the life of the plant another 25 years providing Algona a low cost generating resource with a reduced environmental footprint into the future.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of AMU's finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact management at 104 West Call Street in Algona.

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

PROPRIETARY FUNDS
STATEMENTS OF NET POSITION
DECEMBER 31:

	ENTERPRISE	
	ELECTRIC	
	2013	2012
Utility plant:		
Property and equipment	\$ 55,244,268	\$ 52,517,072
Less accumulated depreciation	(33,886,451)	(32,573,765)
	21,357,817	19,943,307
Construction in progress	7,384,977	4,928,990
Utility Plant - Net	28,742,794	24,872,297
Restricted funds		
Cash and cash equivalents	2,147,018	8,386,214
Short-term investments	308,431	210,928
	2,455,449	8,597,142
Current Assets:		
Cash and cash equivalents	2,261,407	2,006,021
Accounts receivable (net of allowance for doubtful accounts)	1,095,377	813,911
Unbilled usage	220,165	184,274
Accounts receivable -interfund	128,622	128,622
Investments	-	-
Inventory	1,616,809	1,300,637
Prepaid expenses	41,554	44,665
Accrued interest receivable	-	-
Accrued interest receivable - interfund loan	123,152	123,489
	5,487,086	4,601,619
Other assets:		
Investment in joint venture	175,662	175,662
Interfund loan receivable	3,440,000	3,440,000
Economic development loans receivable	514,899	619,011
	4,130,561	4,234,673
Total assets	\$ 40,815,890	\$ 42,305,731

See Notes to Financial Statements

Exhibit A

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2013	2012	2013	2012	2013	2012
\$ 7,018,594	\$ 6,607,229	\$ 6,294,893	\$ 6,260,896	\$ 68,557,755	\$ 65,385,197
(3,156,822)	(2,992,069)	(3,382,770)	(3,143,242)	(40,426,043)	(38,709,076)
3,861,772	3,615,160	2,912,123	3,117,654	28,131,712	26,676,121
186,920	45,946	667,378	162,165	8,239,275	5,137,101
4,048,692	3,661,106	3,579,501	3,279,819	36,370,987	31,813,222
\$ 133,913	\$ 134,039	-	-	2,280,931	8,520,253
7,347	5,407	12,514	20,907	328,292	237,242
141,260	139,446	12,514	20,907	2,609,223	8,757,495
622,863	515,601	274,524	1,093,840	3,158,794	3,615,462
159,143	74,736	311,421	267,851	1,565,941	1,156,498
33,416	31,720	-	-	253,581	215,994
-	-	-	-	128,622	128,622
-	-	-	-	-	-
30,637	34,923	10,367	11,511	1,657,813	1,347,071
21,258	22,202	29,967	22,427	92,779	89,294
-	-	-	-	-	-
-	-	-	-	123,152	123,489
867,317	679,182	626,279	1,395,629	6,980,682	6,676,430
-	-	273,150	214,285	448,812	389,947
-	-	-	-	3,440,000	3,440,000
-	-	-	-	514,899	619,011
-	-	273,150	214,285	4,403,711	4,448,958
\$ 5,057,269	\$ 4,479,734	\$ 4,491,444	\$ 4,910,640	\$ 50,364,603	\$ 51,696,105

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

PROPRIETARY FUNDS
STATEMENTS OF NET POSITION - continued
DECEMBER 31:

	ENTERPRISE	
	ELECTRIC	
	2013	2012
Liabilities:		
Current liabilities:		
Accounts payable	\$ 1,214,583	\$ 1,647,616
Accounts payable - City of Algona	377,229	187,283
Accounts payable - interfund	-	-
Retainage and contracts payable	-	90,573
Accrued taxes	136,639	133,673
Accrued wages and compensated absences	281,136	272,982
Accrued interest payable	43,268	46,154
Deferred revenue	-	-
Revenue bonds payable	900,000	870,000
	<u>2,952,855</u>	<u>3,248,281</u>
Noncurrent liabilities		
Revenue bonds payable - net of current portion	12,995,000	13,895,000
Interfund loan - payable	-	-
Other long-term debt	377,713	-
Accrued OPEB	196,642	157,414
	<u>13,569,355</u>	<u>14,052,414</u>
Other liabilities		
Deferred compensation liability	308,431	210,928
	<u>16,830,641</u>	<u>17,511,623</u>
Total liabilities		
	<u>16,830,641</u>	<u>17,511,623</u>
Fund Net Position		
Net investment in capital assets	14,847,794	16,918,836
Restricted - bond covenant	2,147,018	1,574,675
Unrestricted (deficit)	6,990,437	6,300,597
Total net position	<u>\$ 23,985,249</u>	<u>\$ 24,794,108</u>
Total liabilities and net position	<u>\$ 40,815,890</u>	<u>\$ 42,305,731</u>

See Notes to Financial Statements

Exhibit A - continued

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2013	2012	2013	2012	2013	2012
102,414	\$ 37,257	\$ 115,678	\$ 121,065	\$ 1,432,675	\$ 1,805,938
42,857	2,318	135,326	138,837	555,413	328,438
-	-	128,622	128,622	128,622	128,622
-	13,869	-	-	-	104,442
2,484	3,380	58,321	62,668	197,444	199,721
51,537	47,129	79,969	79,098	412,642	399,209
2,984	3,109	123,152	123,489	169,404	172,752
-	-	180,450	184,650	180,450	184,650
75,000	75,000	92,398	182,518	1,067,398	1,127,518
277,276	182,062	913,916	1,020,947	4,144,047	4,451,290
1,080,000	1,155,000	1,704,478	1,797,154	15,779,478	16,847,154
-	-	3,440,000	3,440,000	3,440,000	3,440,000
462,986	-	-	-	840,699	-
33,055	27,979	72,430	56,254	302,127	241,647
1,576,041	1,182,979	5,216,908	5,293,408	20,362,304	20,528,801
7,347	5,407	12,514	20,907	328,292	237,242
1,860,664	1,370,448	6,143,338	6,335,262	24,834,643	25,217,333
2,893,692	2,431,106	139,501	(160,181)	17,880,987	19,189,761
133,913	134,039	-	-	2,280,931	1,708,714
169,000	544,141	(1,791,395)	(1,264,441)	5,368,042	5,580,297
\$ 3,196,605	\$ 3,109,286	\$ (1,651,894)	\$ (1,424,622)	\$ 25,529,960	\$ 26,478,772
\$ 5,057,269	\$ 4,479,734	\$ 4,491,444	\$ 4,910,640	\$ 50,364,603	\$ 51,696,105

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

**PROPRIETARY FUNDS
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION**

DECEMBER 31:

	ENTERPRISE	
	ELECTRIC	
	2013	2012
Operating revenues:		
Sale of electricity:		
Residential and commercial	\$ 8,621,514	\$ 7,914,391
Sales for resale	2,587,362	2,523,878
Service provided to City of Algona	35,856	34,123
Sales to other utilities	117,132	103,545
Sale of water	-	-
Cable TV fees	-	-
Internet fees	-	-
Telephone service	-	-
Cell phone revenue	-	-
Miscellaneous and merchandising	181,206	195,824
Return from investment in AMU-Skylink LC	-	-
Total operating revenue	11,543,070	10,771,761
Operating expenses:		
Generation and power purchased	8,269,671	7,199,101
Transmission-distribution maintenance	381,202	411,205
Meter reading supplies and labor	139,061	149,702
Sales	37,951	38,945
General and other	785,030	785,791
Administration and general	351,337	355,226
Rebates and other expenses	173,214	171,101
Merchandise, jobbing and construction	8,720	7,647
Property tax and insurance	224,400	211,887
Depreciation	1,463,635	1,402,589
Free service to the City of Algona	360,245	320,371
Source of supply	-	-
Maintenance of mains, services and meters	-	-
Maintenance of distribution and equipment	-	-
Headend programming	-	-
Customer accounts	-	-
Total operating expenses	12,194,466	11,053,565
Income from operations	\$ (651,396)	\$ (281,804)

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2013	2012	2013	2012	2013	2012
\$ -	\$ -	\$ -	\$ -	\$ 8,621,514	\$ 7,914,391
-	-	-	-	2,587,362	2,523,878
-	-	-	-	35,856	34,123
-	-	-	-	117,132	103,545
1,040,062	998,132	-	-	1,040,062	998,132
-	-	1,128,454	1,123,865	1,128,454	1,123,865
-	-	886,734	832,871	886,734	832,871
-	-	1,106,154	1,317,666	1,106,154	1,317,666
-	-	53,281	66,810	53,281	66,810
17,469	18,827	73,584	112,545	272,259	327,196
-	-	(41,135)	3,889	(41,135)	3,889
1,057,531	1,016,959	3,207,072	3,457,646	15,807,673	15,246,366
-	-	-	-	8,269,671	7,199,101
-	-	-	-	381,202	411,205
-	-	-	-	139,061	149,702
-	-	-	-	37,951	38,945
-	-	-	-	785,030	785,791
256,621	258,333	684,065	696,794	1,292,023	1,310,353
-	-	-	-	173,214	171,101
23,161	18,676	63,152	56,899	95,033	83,222
-	-	82,372	84,960	306,772	296,847
195,606	159,346	345,737	366,352	2,004,978	1,928,287
43,102	44,244	135,326	143,463	538,673	508,078
258,478	161,834	-	-	258,478	161,834
133,352	90,686	-	-	133,352	90,686
-	-	215,681	193,466	215,681	193,466
-	-	1,544,156	1,530,602	1,544,156	1,530,602
52,580	51,935	141,707	131,329	194,287	183,264
962,900	785,054	3,212,196	3,203,865	16,369,562	15,042,484
\$ 94,631	\$ 231,905	\$ (5,124)	\$ 253,781	\$ (561,889)	\$ 203,882

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

PROPRIETARY FUNDS
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION - continued

DECEMBER 31:

	ENTERPRISE	
	ELECTRIC	
	2013	2012
Non-operating income and (expense)		
Interest income	\$ 136,277	\$ 143,819
Interest expense	(466,522)	(311,412)
Grant income	202,007	551,742
Miscellaneous	6,290	23,648
Donations	(50,091)	(97,997)
Gain (loss) on disposition of assets	14,576	9,756
Total non-operating income (expense)	(157,463)	319,556
Income(loss) before other revenues, expenses and transfers	(808,859)	37,752
Other revenues, expenses, gains, losses and transfers		
Capital contribution - capital grant	-	71,780
Transfer to City of Algona	-	(470,000)
Total other income, expense, and transfers	-	(398,220)
Increase (decrease) in net position	(808,859)	(360,468)
Net position, beginning	24,794,108	25,154,576
Net position, ending	\$ 23,985,249	\$ 24,794,108

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2013	2012	2013	2012	2013	2012
\$ 720	\$ 2,207	\$ 558	\$ 2,336	\$ 137,555	\$ 148,362
(47,898)	(39,662)	(202,299)	(208,865)	(716,719)	(559,939)
-	-	-	-	202,007	551,742
40,371	19,901	4,328	5,560	50,989	49,109
(1,155)	(269)	-	-	(51,246)	(98,266)
650	-	(24,735)	(42,208)	(9,509)	(32,452)
(7,312)	(17,823)	(222,148)	(243,177)	(386,923)	58,556
87,319	214,082	(227,272)	10,604	(948,812)	262,438
-	-	-	-	-	71,780
-	-	-	-	-	(470,000)
-	-	-	-	-	(398,220)
87,319	214,082	(227,272)	10,604	(948,812)	(135,782)
3,109,286	2,895,204	(1,424,622)	(1,435,226)	26,478,772	26,614,554
\$ 3,196,605	\$ 3,109,286	\$ (1,651,894)	\$ (1,424,622)	\$ 25,529,960	\$ 26,478,772

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

**PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS
DECEMBER 31:**

	ENTERPRISE	
	ELECTRIC	
	2013	2012
Cash flows from operating activities:		
Cash receipts from customers	\$ 10,883,937	\$ 10,203,873
Cash receipts from interfund services	117,132	219,099
Other operating cash receipts	19,280	34,699
Cash payments to suppliers	(9,934,701)	(7,197,969)
Cash payments to employees	(1,315,761)	(1,228,833)
Cash payments for interfund services	128,622	-
Net cash provided by operating activities	(101,491)	2,030,869
Cash flows from noncapital financing activities:		
Transfer to the City of Algona	-	(175,000)
Donations	(50,091)	(97,997)
Net cash (used) by noncapital financing activities	(50,091)	(272,997)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(5,325,447)	(6,395,121)
Repayment of revenue bonds	(870,000)	(825,000)
Proceeds from note issuances	382,443	-
Repayment of note payable	(4,730)	-
Grant received	202,007	540,000
Proceeds from sale of assets	18,548	40,421
Cash payments for interest	(481,393)	(499,592)
Net cash provided (used) by capital and related financing activities	(6,078,572)	(7,139,292)
Cash flows from investing activities:		
Interest received during the year	135,943	143,482
Principal received on economic development loan	104,112	55,043
Additional investment AMU-Skylink	-	-
Issuance of new economic development loans	-	(375,187)
Miscellaneous income	6,289	23,648
Net cash provided (used) by investing activities	\$ 246,344	\$ (153,014)

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2013	2012	2013	2012	2013	2012
\$ 971,429	\$ 993,746	\$ 3,196,486	\$ 3,338,851	\$ 15,051,852	\$ 14,536,470
-	-	-	-	117,132	219,099
-	-	3,951	-	23,231	34,699
(292,964)	(282,844)	(2,280,109)	(2,214,413)	(12,507,774)	(9,695,226)
(190,978)	(179,504)	(456,322)	(392,333)	(1,963,061)	(1,800,670)
(177,709)	(90,477)	(128,622)	(128,622)	(177,709)	(219,099)
309,778	440,921	335,384	603,483	543,671	3,075,273
-	-	-	-	-	(175,000)
(1,155)	(269)	-	-	(51,246)	(98,266)
(1,155)	(269)	-	-	(51,246)	(273,266)
(583,195)	(683,026)	(686,681)	(214,305)	(6,595,323)	(7,292,452)
(75,000)	(75,000)	(182,797)	(176,565)	(1,127,797)	(1,076,565)
467,431	-	-	-	849,874	-
(4,445)	-	-	-	(9,175)	-
-	-	-	-	202,007	540,000
650	-	12,525	-	31,723	40,421
(48,019)	(38,802)	(202,633)	(208,528)	(732,045)	(746,922)
(242,578)	(796,828)	(1,059,586)	(599,398)	(7,380,736)	(8,535,518)
720	2,207	558	2,336	137,221	148,025
-	-	-	-	104,112	55,043
-	-	(100,000)	-	(100,000)	-
-	-	-	-	-	(375,187)
40,371	19,901	4,328	5,560	50,988	49,109
\$ 41,091	\$ 22,108	\$ (95,114)	\$ 7,896	\$ 192,321	\$ (123,010)

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

**PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS - continued
DECEMBER 31:**

	ENTERPRISE	
	ELECTRIC	
	2013	2012
Net increase (decrease) in cash and cash equivalents	\$ (5,983,810)	\$ (5,534,434)
Cash and cash equivalents-beginning of year	10,392,235	15,926,669
Cash and cash equivalents-end of year	4,408,425	10,392,235
Restricted funds	2,147,018	8,386,214
Current assets	2,261,407	2,006,021
	4,408,425	10,392,235
Reconciliation of operating income to net cash provided by operating activities:		
Income from operations	(651,396)	(281,804)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,463,635	1,402,589
Loss (gain) from investment in AMU-Skylink LC	-	-
Change in accounts receivable	(281,466)	(64,252)
Change in unbilled usage	(35,891)	(17,671)
Change in accounts receivable - interfund	-	-
Change in prepaid expenses	3,111	16,924
Change in inventory	(316,172)	(159,973)
Change in accounts payable and retainages payable	(333,660)	1,057,782
Change in accrued taxes	2,966	(5,266)
Change in accrued wages and compensated absences	8,154	43,284
Change in deferred revenue	-	-
Change in OPEB liability	39,228	39,256
Net cash provided by operating activities	\$ (101,491)	\$ 2,030,869

Non-cash investing and financing transactions:

In 2012, the Electric Fund transferred \$235,000 of Receivables associated with the revolving loan fund established separate from the USDA revolving loan funds to the City of Algona as they will now manage that program.

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2013	2012	2013	2012	2013	2012
\$ 107,136	\$ (334,068)	\$ (819,316)	\$ 11,981	\$ (6,695,990)	\$ 91,690
649,640	983,708	1,093,840	1,081,859	12,135,715	1,264,306
756,776	649,640	274,524	1,093,840	5,439,725	12,135,715
133,913	134,039	-	-	2,280,931	8,520,253
622,863	515,601	274,524	1,093,840	3,158,794	3,615,462
756,776	649,640	274,524	1,093,840	5,439,725	12,135,715
94,631	231,905	(5,124)	253,781	(561,889)	203,882
195,606	159,346	345,737	366,352	2,004,978	1,928,287
-	-	41,135	(3,889)	41,135	(3,889)
(84,406)	(13,027)	(43,570)	(60,270)	(409,442)	(137,549)
(1,695)	(6,359)	-	-	(37,586)	(24,030)
-	40,572	-	-	-	40,572
944	(873)	(7,539)	(3,457)	(3,485)	12,594
4,286	(1,651)	1,144	7,981	(310,742)	(153,643)
91,825	21,994	(8,898)	(823)	(250,733)	1,078,953
(896)	241	(4,347)	(491)	(2,277)	(5,516)
4,408	3,690	871	16,311	13,433	63,285
-	-	(200)	11,802	(200)	11,802
5,076	5,083	16,176	16,186	60,480	60,525
\$ 309,778	\$ 440,921	\$ 335,384	\$ 603,483	\$ 543,671	\$ 3,075,273

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Algona Municipal Utilities (AMU) is a component unit of the City of Algona whose funds are reported under separate cover utilizing a fiscal year ending June 30. The City of Algona is a political subdivision of the State of Iowa located in Kossuth County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. AMU Board of Trustees operates the Utilities by the authority of Chapters 384 and 388 of the Code of Iowa. AMU provides electric, water, cable television, internet, telephone, cell phone sales and service, and data services on a user charge basis to the general public and other governmental units within Kossuth County, Iowa.

A. Reporting Entity

For financial reporting purposes, AMU has included all funds, organizations, agencies, boards, commissions and authorities. AMU has also considered all other potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with AMU are such that exclusion would cause AMU's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of AMU to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on AMU. AMU has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual proprietary funds are reported as separate columns in the fund financial statements.

AMU reports the following major proprietary funds:

Enterprise:

The Electric Fund is used to account for the operation and maintenance of AMU's electric system.

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

The Water Fund is used to account for the operation and maintenance of AMU's water system.

The Communications Fund is used to account for the cable television, internet, telephone, cellular service, and data services systems.

C. Measurement Focus and Basis of Accounting

AMU maintains its financial records on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

AMU applies all applicable GASB pronouncements, as well as Financial Accounting Standards Board pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of AMU are charges to customers for sales and services. Operating expenses include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

E. Utility Plant and Depreciation

The utility plant is stated at original cost when first devoted to public service. Expenditures for additions and betterments (including labor charges) are capitalized, while expenditures for repairs and maintenance are charged to

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

operations as incurred. The costs of assets retired or sold and the related accumulated depreciation are eliminated from the accounts in the year of disposal, with the resulting gain or loss credited or charged to operations. The straight-line method is used for computing depreciation with estimated useful lives ranging from two to fifty years.

F. Revenue, Unbilled Usage, Deferred Revenue, and Accounts Receivable

Revenues are based on billing rates applied to customers' consumption. Unbilled usage represents revenues based upon estimated consumption for the period between the last billing dates at the end of the year. Deferred revenue represents amounts billed for cable television, internet, telephone, and data services that had not yet been delivered at the end of the year. The allowance method is used to account for uncollectible accounts receivable. AMU charges 1.5% per month on past due accounts.

The Communications Utility also has receivables from Carrier Access Billing (CABS) that are separate from customer charges. As of December 31, 2013 and 2012, \$270,153 and \$139,212 in (CABS) receivables were older than 90 days.

The balance of the allowance for doubtful accounts as of December 31 2013 and 2012 were as follows:

	<u>Electric</u>	<u>Water</u>	<u>Communications</u>
December 31, 2013	<u>\$ 32,400</u>	<u>\$ 3,275</u>	<u>\$ 155,650</u>
December 31, 2012	<u>\$ 31,900</u>	<u>\$ 3,800</u>	<u>\$ 92,000</u>

G. Inventory

Inventory is valued at the lower of cost or market. Cost is determined on a first-in, first-out method for materials and supplies, and the average cost method for fuel.

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

H. Joint Plant Ownership

Under a joint ownership agreement with other utilities, AMU has a 2.937% undivided interest in a 640 MW electric generation station known as George Neal Generating Station Unit No. 4. As of December 31, 2013 and 2012, AMU's interest in this plant represents a total investment of \$13,943,428 and \$11,633,431 which is included in property and equipment on the financial statements respectively. Accumulated depreciation associated with the Utilities' ownership in this plant totaled \$(10,149,951) and \$(10,003,693) at December 31, 2013 and 2012 respectively. Operating costs and depreciation associated with this plant are reflected in the statement of income.

AMU also has a 4.18% undivided interest in the Lehigh-Webster Transmission System. As of December 31, 2013 and 2012, AMU's interest in the system represents a total investment of \$364,770 which is included in property and equipment on the financial statements. This asset is fully depreciated as of December 31, 2013 and 2012. Operating costs associated with this system are reflected in the statement of income.

AMU has an 11.1% undivided interest in the Iowa Distributed Wind Generation Project (IDWGP). IDWGP is a consortium of seven municipal electric utilities that jointly own and operate three 750 KW wind turbine generators at a site six miles southeast of the City of Algona. As of December 31, 2013 and 2012, AMU's interest in the system represents a total investment of \$164,418 which is included in property and equipment on the financial statements. Accumulated depreciation associated with the AMU's ownership in this plant totaled \$(128,317) and \$(117,497) at December 31, 2013 and 2012 respectively. AMU, through a contractual relationship with IDWGP, provides operating, maintenance, and site management for the project. In addition, AMU currently purchases the majority of the electricity produced by the project.

I. Interest Capitalization

AMU capitalizes interest costs incurred on funds used to construct property, plant, and equipment. The capitalized interest is recorded as part of the asset to which it relates and is written off over the asset's estimated useful life.

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

J. Net Position

Net position reflects the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the financial statements. Net position invested in capital assets, net of related debt consists of capital assets net of related accumulated depreciation, reduced by the balance of long term debt used to acquire or construct those assets. Net position is reported as restricted when there are limitations placed on their use through external restrictions imposed by creditors, grantors, or laws and regulations increased by unspent debt proceeds of bonds issuance net of related debt. Unrestricted net position consists of net position that does not meet the definition of invested in capital assets net of related debt or restricted.

AMU's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

K. Rate Matters

The rates charged by AMU are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

M. Cash and Cash Equivalents

For the purpose of the statement of cash flows, AMU considers all highly liquid debt instruments purchased with a maturity of less than three months to be cash equivalents.

N. Contracts

AMU joined, through a contractual agreement, the North Iowa Municipal Electric Cooperative Association (NIMECA) in 2009. NIMECA is a cooperative consisting of 12 member municipalities that consolidates the electric resources of its members and serves as a joint power supply.

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND INVESTMENTS

AMU's deposits at December 31, 2013 and 2012 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

AMU is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by AMU's Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; warrants or improvement certificates of a drainage district.

AMU's investments are categorized to give an indication of the level of risk assumed by AMU at year-end. AMU's investments are all category 1, which means that the investments are insured or registered or the securities are held by AMU or its agent in AMU's name.

AMU had investments in the Iowa Public Agency Investments Trust at December 31, 2013 and 2012 of \$361,875, which are valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Credit Risk – The Electric Utility had \$3,014,299 and \$10,180,792 included as cash on the Statement of Net Position at December 31, 2013 and 2012 that was held in a money market rated AAA by Standard & Poors.

Interest rate risk – The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Utilities. Reconciliation of the Utilities' cash and cash equivalents and temporary cash and investments for the years ended December 31, 2013 and 2012 is as follows:

	December 31, 2013			Total
	Electric Utility	Water Utility	Communications Utility	
Cash and cash equivalents				
Restricted	2,147,018	133,913	-	2,280,931

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND INVESTMENTS - continued

Current assets	2,261,407	622,863	274,524	3,158,794
	<u>4,408,425</u>	<u>756,776</u>	<u>274,524</u>	<u>5,439,725</u>
Investments				
Restricted	308,431	7,347	12,514	328,292
	<u>308,431</u>	<u>7,347</u>	<u>12,514</u>	<u>329,292</u>
Total cash and cash equivalents and investments	<u>\$ 4,716,856</u>	<u>764,123</u>	<u>287,038</u>	<u>\$ 5,768,017</u>

December 31, 2012				
	Electric Utility	Water Utility	Communications Utility	Total
Cash and cash equivalents				
Restricted	8,386,214	134,039	-	10,232,888
Current assets	<u>1,239,365</u>	<u>515,601</u>	<u>1,093,840</u>	<u>2,995,768</u>
	<u>10,392,235</u>	<u>649,640</u>	<u>1,093,840</u>	<u>12,135,715</u>
Investments				
Restricted	210,928	5,407	20,907	237,242
	<u>210,928</u>	<u>5,407</u>	<u>20,907</u>	<u>237,242</u>
Total cash and cash equivalents and investments	<u>\$ 10,603,163</u>	<u>655,047</u>	<u>1,114,747</u>	<u>\$ 12,372,957</u>

NOTE 3 – INTERFUND LOAN

Management authorized interfund loans from the Electric Fund to the Communications Fund not to exceed \$5,540,000 dedicated to finance the construction of the AMU broadband telecommunications network. All monies transferred shall be repaid to the originating account within 180 months with interest at the rate of 3.58% per annum. As of December 31, 2013 and 2012 the outstanding balance on the interfund loan was \$3,440,000.

This interfund loan is reflected on the Electric Department Balance Sheet as an Other Asset. It is reflected on the Communication Department Balance Sheet as a Noncurrent Liability. Accrued interest as of December 31, 2013 and 2012 of \$123,152 and \$123,489 is also reflected on the Electric Department Balance Sheet as Accrued Interest Receivable – Interfund Loan and the Communication Department Balance Sheet as Accrued Interest Payable - Interfund Loan.

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – ECONOMIC DEVELOPMENT LOAN FUND

AMU operated a revolving loan fund in conjunction with the City of Algona. Effective in 2012, AMU transferred operation and tracking of this program to the City of Algona.

NOTE 5 – USDA ECONOMIC DEVELOPMENT LOAN FUND

In conjunction with the USDA (United States Rural Development), AMU has established a separate revolving loan fund. The funding for the program came from two separate \$300,000 grants from the USDA supplemented by \$120,000 of matching funds provided by AMU.

This program has made four separate loans to local charitable organizations/governmental organizations to assist in furthering economic development in the Algona area. As of December 31, 2013 and 2012 notes receivable under this program amounted to \$514,895 and \$619,011.

NOTE 6 – REVENUE BONDS PAYABLE

The following is a summary of changes in long-term debt for the years ended December 31, 2013 and 2012.

Electric Utility:

	Balance 1/1/13	Issued	Repaid	Balance 12/31/13
Business type activities:				
Revenue Bonds – Series 2008	\$ 845,000	-	\$ 525,000	\$ 320,000
Revenue Bonds – Series 2011	13,920,000	-	345,000	13,575,000
	<u>14,765,000</u>	-	<u>870,000</u>	<u>13,895,000</u>

	Balance 1/1/12	Issued	Repaid	Balance 12/31/12
Business type activities:				
Revenue Bonds – Series 2008	\$ 1,345,000	-	500,000	\$ 845,000
Revenue Bonds – Series 2011	14,245,000	-	325,000	13,920,000
	<u>15,590,000</u>	-	<u>825,000</u>	<u>14,765,000</u>

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – REVENUE BONDS PAYABLE - continued

Water Utility:

	Balance 1/1/13	Issued	Repaid	Balance 12/31/13
Business type activities:				
Revenue Bonds – issued October 5, 2010	\$ 1,230,000	-	75,000	\$1,155,000
	<u>\$ 1,230,000</u>	<u>-</u>	<u>75,000</u>	<u>\$ 1,115,000</u>

	Balance 1/1/12	Issued	Repaid	Balance 12/31/12
Business type activities:				
Revenue Bonds – issued October 5, 2010	1,305,000	-	75,000	1,230,000
	<u>1,370,000</u>	<u>-</u>	<u>65,000</u>	<u>1,305,000</u>

Communications Utility:

	Balance 1/1/13	Issued	Repaid	Balance 12/31/13
Business type activities:				
Revenue Bonds–Series 2005	309,956	-	32,637	277,319
Revenue Bonds–Series 2010	<u>1,669,716</u>	<u>-</u>	<u>150,160</u>	<u>1,519,556</u>
	<u>1,979,672</u>	<u>-</u>	<u>182,797</u>	<u>1,796,875</u>

	Balance 1/1/12	Issued	Repaid	Balance 12/31/12
Business type activities:				
Revenue Bonds–Series 2005	\$ 340,976	-	31,020	309,956
Revenue Bonds–Series 2010	<u>1,815,261</u>	<u>-</u>	<u>145,545</u>	<u>1,669,716</u>
	<u>2,156,237</u>	<u>-</u>	<u>176,565</u>	<u>1,979,672</u>

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – REVENUE BONDS PAYABLE - continued

Annual debt service requirements to maturity for the revenue bonds are as follows:

Year Ending December 31,	Electric Series 2008 Interest 3.25%-4.00%		Electric Series 2011 Interest 2.0%-4.0%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	320,000	12,800	580,000	419,938	900,000	432,738
2015	-	-	920,000	408,338	920,000	408,338
2016	-	-	940,000	389,938	940,000	389,938
2017	-	-	960,000	371,138	960,000	371,138
2018	-	-	985,000	349,538	985,000	349,538
2019-2023	-	-	5,415,000	1,310,014	5,415,000	1,310,014
2024-2026	-	-	3,775,000	303,188	3,775,000	303,188
	320,000	12,800	13,575,000	3,552,092	13,895,000	3,564,892

Year Ending December 31,	Communications Series 2005 Interest 5.09%		Communications Series 2010 Interest 5.45%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	34,192	13,467	156,076	58,206	190,268	71,673
2015	35,974	11,685	1,363,621	51,887	1,399,595	63,572
2016	37,848	9,811	-	-	37,848	9,811
2017	39,820	7,839	-	-	39,820	7,839
2018	41,895	6,239	-	-	41,895	6,239
2019-2020	88,449	4,465	-	-	88,449	4,465
	278,178	53,506	1,519,556	110,093	1,797,875	163,599

Years Ending December 31:	Water Series 2010	
	Principal	Interest
2014	75,000	35,082
2015	80,000	34,302
2016	85,000	32,702
2017	85,000	30,790
2018	90,000	28,665
2019-2023	505,000	99,850
2024-2025	235,000	13,730
	1,155,000	275,121

**ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

NOTE 6 – REVENUE BONDS PAYABLE - continued

The resolutions providing for the issuance of the revenue bonds include the following provisions:

Series 2008 and 2011 Electric Revenue Bonds:

- A. The bonds will only be redeemed from the earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to the Electric Revenue Bond Sinking Fund for the purpose of making the note principal and interest payments when due.
- C. A reserve fund shall be established and maintained at a level equal to or less than \$1,362,800. The reserve was fully funded at December 31, 2013 and 2012.
- D. Rates are to be established sufficient to produce “Net Revenues” of not less than 125% of the principal and interest due on the bonds.

Series 2010 Water Revenue Bonds:

- A. Sufficient monthly transfers shall be made to the Water Revenue Bond Sinking Fund for the purpose of making the note principal and interest payments when due.
- B. A reserve fund shall be established and maintained at a level equal to or less than \$124,680. The reserve was fully funded at December 31, 2013 and 2012.
- C. Rates are to be established sufficient to produce “Net Revenues” of not less than 125% of the principal and interest requirements on the bonds.

Series 2005 and 2010 Communications Revenue Bonds:

- A. Sufficient monthly transfers shall be made to the Communications Revenue Bond Sinking Fund for the purpose of making the note principal and interest payments when due.
- B. Rates are to be established sufficient to produce “Net Revenues” of not less than 110% of the principal and interest requirements on the bonds.

NOTE 7 –ENERGY MANAGEMENT IMPROVEMENT LOAN

During the year, AMU entered into a loan agreement with the Iowa Association of Municipal Utilities (IAMU) to finance certain energy efficiency and renewable energy improvement projects. On October 1, 2013, AMU executed an agreement with IAMU to borrow \$849,874 to make distribution system improvements that reduce line losses and facilitate the implementation of smart grid measures. This note payable is split 55% and 45% between the water and electric funds, respectively.

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NOTES TO FINANCIAL STATEMENTS

NOTE 7 –ENERGY MANAGEMENT IMPROVEMENT LOAN - continued

Annual debt service requirements for this loan are as follows:

Year Ending December 31,	Electric/Water Interest 2.0%	
	Principal	Interest
2014	55,695	17,614
2015	56,819	15,181
2016	57,966	14,034
2017	59,136	12,864
2018	60,329	11,671
2019-2023	320,412	39,589
2024-2026	230,342	7,899
	<u>840,699</u>	<u>118,852</u>

NOTE 8 – INTEREST COSTS

During the years ended December 31, 2013 and 2012, the interest incurred and expensed by the Electric Fund was \$479,068 and \$323,958 respectively.

During the years ended December 31, 2013 and 2012, the interest incurred by the Communication Fund was \$208,865 and \$215,869 respectively. The Electric Fund recognized interest income of \$123,489 and \$123,152 from the interfund loan during 2013 and 2012.

NOTE 9 – RESTRICTED FUNDS

As of December 31, 2013 Restricted Funds consisted of the following.

	Electric	Water	Communication	Total
Bond Sinking	111,062	9,233	-	120,295
Bond Reserve	1,362,800	124,680	-	1,487,480
Unspent Bond proceeds	468,025	-	-	468,025
Revolving loan fund	205,131	-	-	205,131
Deferred Compensation	308,431	7,347	12,514	328,292
	<u>2,455,449</u>	<u>686,980</u>	<u>12,514</u>	<u>2,609,223</u>

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NOTES TO FINANCIAL STATEMENTS

NOTE 9 – RESTRICTED FUNDS - continued

As of December 31, 2012 Restricted Funds consisted of the following.

	Electric	Water	Communication	Total
Bond Sinking	110,887	9,359	-	120,246
Bond Reserve	1,362,800	124,680	-	1,487,480
Unspent Bond proceeds	6,811,539	-	-	6,811,539
Restricted note funds	8,285,226	134,039	-	8,419,265
Revolving loan fund	100,988	-	-	100,988
Deferred Compensation	210,928	5,407	20,907	237,242
	8,597,142	139,446	20,907	8,757,495

The Bond Funds are restricted as stated in Note 5. The deferred compensation fund assets are maintained in a 457(b) plan.

NOTE 10- PENSION AND RETIREMENT BENEFITS

AMU contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.95% (5.78% through June 30, 2013) of their annual salary and AMU is required to contribute 8.93% (8.67% through June 30, 2013) of annual covered payroll. Contribution requirements are established by state statute. AMU's contributions to IPERS for the years ended December 31, 2013, 2012, and 2011, were \$184,783, \$171,312, and \$148,301 respectively, equal to the required contributions for each year.

NOTE 11 - TRANSFERS TO CITY IN LIEU OF PROPERTY TAXES

By resolution of AMU's Board of Trustees, effective for 2013 and all following years, the Utility may make an annual Payment in Lieu of Taxes (PILOT) to the City using the following formula to determine annual transfer of funds:

**ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

NOTE 11 - TRANSFERS TO CITY IN LIEU OF PROPERTY TAXES - continued

Electric Transfer: Electric sales are based on the past 5 years average sales in dollars for retail electric divided by the equivalent kWh to get a \$/kWh amount. This creates a base sales amount for the PILOT. This amount will then be multiplied by the current year retail kWh sales to get the sales before transfer number. The current year City Free Services and the annual Power Cost Adjustment amount are subtracted from the Sales before Transfer to determine the Revenues Subject to the 5% PILOT. The December Cash Transfer and City Property Taxes paid are subtracted to determine the final amount Due to the City.

Water Transfer: Water sales are based on the past 5 years average sales in dollars for retail water divided by the equivalent cubic feet to get a \$/cubic foot amount. This creates a base amount for the PILOT. This amount will then be multiplied by the current year retail cubic foot sales to get the sales before transfer number. The current year City Free Services amount is subtracted from the Sales before Transfer to determine the Revenues Subject to the 5% PILOT. The December Cash Transfer and City Property Taxes paid are subtracted to determine the final amount due to the City.

Communications Transfer: Communications sales are based on the gross revenue for cable TV minus wholesale headend service revenue, Internet sales, and Telephone sales to determine the sales before transfer number. The current year City Free Services amount is subtracted from the Sales before Transfer to determine the Revenues Subject to the 5% PILOT. The December Cash Transfer and City Property Taxes paid are subtracted to determine the final amount due to the City.

NOTE 12 – RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three calendar years. The Utility assumes liability for any deductibles and claims in excess of coverage limitations.

NOTE 13 - JOINT VENTURES

AMU has a 15% ownership interest in the Iowa Public Power Agency (IPPA). IPPA was formed under Iowa Code chapter 28E for the purpose of enabling smaller municipal utilities to own an interest in electric transmission lines. AMU's total equity position at December 31, 2013 and 2012 is approximately \$175,662 (classified as

ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

NOTE 13 - JOINT VENTURES -continued

Investment in Joint Venture on the statement of net position). This funding was to assist the IPPA purchase a \$3.5 million share in a transmission line project, in partnership with MidAmerican Energy. Audited statements for the IPPA are available upon request at the AMU business office.

Condensed financial information for IPPA as of December 31, 2013 and 2012 is as follows:

	December 31, 2013	December 31, 2012
Total assets	\$ 3,699,952	\$ 3,805,083
Total liabilities	2,805,000	3,028,257
Member equity	771,944	776,826
	\$ 3,699,952	\$ 3,805,083
Revenues	650,565	651,592
Expenses	(305,449)	(299,226)
Change in net position	\$ 345,116	\$ 352,366

AMU also has a 50% ownership interest in AMU-Skylink LC (an LLC). AMU-Skylink LC is a LLC with a private for-profit member that has constructed a tower to provide Algona residents with wireless telephone access. AMU's investment in AMU-Skylink LC is reported as an Investment in Joint Venture on the Communication Fund balance sheet and is valued at \$273,150 and \$214,285 as of December 31, 2013 and 2012. Audited statements for AMU-Skylink LC are available upon request at the AMU business office.

Condensed financial information for AMU-Skylink LC as of December 31, 2013 and 2012 is as follows:

	December 31, 2013	December 31, 2012
Total assets	\$ 625,187	\$ 504,281
Total liabilities	78,885	75,708
Member equity	546,302	428,573
	\$ 625,187	\$ 504,281
Revenues	306,235	356,496
Expenses	(388,573)	(348,715)
Net income	\$ (82,271)	\$ 7,781

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NOTES TO FINANCIAL STATEMENTS

NOTE 14 – COMPENSATED ABSENCES

AMU employees accumulate a limited amount of earned but unused vacation. The Utilities' approximate liability for earned vacation payments payable to employees at December 31, 2013 and 2012 is as follows:

Type of Benefit	Electric	Water	Communications	Total
December 31, 2013: Vacation	\$ 82,382	12,059	18,709	\$ 113,150
December 31, 2012: Vacation	\$ 76,157	11,107	16,569	\$ 103,743

NOTE 15 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2013 and 2012 was as follows:

December 31, 2013

Electric Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 256,366	-	-	\$ 256,366
Construction in progress	4,928,990	2,455,987	-	7,384,977
	5,185,356	2,455,987	-	7,641,343
Capital assets being depreciated:				
Buildings and improvements	2,799,436	-	-	2,799,436
Equipment and vehicles	2,256,718	20,183	8,777	2,268,124
Infrastructure	47,204,551	2,860,183	144,392	49,920,342
Total capital assets being depreciated	52,260,705	2,880,366	153,169	54,987,902
Less accumulated depreciation for:				
Buildings and improvements	936,071	68,273	-	1,004,344
Equipment and vehicles	1,660,119	137,802	8,777	1,789,144
Infrastructure, road network	29,977,574	1,257,560	142,171	31,092,963
Total accumulated depreciation	32,573,764	1,463,635	150,948	33,886,451
Total capital assets being depreciated, net	19,686,941			21,101,451
Total capital assets, net	\$24,872,297			\$28,742,794

Water Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 12,306	-	-	\$ 12,306

ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

NOTE 15 – CAPITAL ASSETS - continued

Construction in progress	45,946	140,974	-	186,920
	58,252	140,974	-	199,226
Capital assets being depreciated:				
Equipment and vehicles	292,557	14,273	-	306,829
Infrastructure	6,302,366	430,957	33,864	6,699,459
Total capital assets being depreciated	6,594,923	445,230	33,864	7,006,288
Less accumulated depreciation for:				
Equipment and vehicles	181,733	29,971	-	210,971
Infrastructure, road network	2,810,336	165,635	30,853	2,945,851
Total accumulated depreciation	2,992,069	195,606	30,853	3,156,822
Total capital assets being depreciated, net	3,602,854			3,849,466
Business type activities capital assets, net	\$ 3,661,106			4,048,692

Communications Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 49,635	-	-	\$ 49,635
Construction in progress	162,165	505,213	-	667,378
	211,800	505,213	-	717,013
Capital assets being depreciated:				
Buildings and improvements	271,793	-	-	271,793
Equipment and vehicles	197,504	42,919	18,900	221,523
Infrastructure	5,741,964	132,574	122,595	5,751,942
Total capital assets being depreciated	6,211,261	175,493	141,495	6,245,258
Less accumulated depreciation for:				
Buildings and improvements	98,959	10,278	-	109,237
Equipment and vehicles	138,352	18,249	18,900	137,702
Infrastructure, road network	2,905,931	317,210	87,309	3,135,831
Total accumulated depreciation	3,143,242	345,737	106,209	3,382,770
Total capital assets being depreciated, net	3,068,019			2,862,488
Business type activities capital assets, net	\$ 3,279,819			\$ 3,579,501

ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

NOTE 15 – CAPITAL ASSETS – continued

December 31, 2012

Electric Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 256,366	-	-	\$ 256,366
Construction in progress	1,053,000	3,875,990	-	4,928,990
	2,728,366	3,875,990	-	5,185,356
Capital assets being depreciated:				
Buildings and improvements	2,730,473	68,963	-	2,799,436
Equipment and vehicles	2,194,354	90,628	28,264	2,256,718
Infrastructure	44,857,573	2,429,406	82,428	47,204,551
Total capital assets being depreciated	49,782,400	2,588,997	110,692	52,260,705
Less accumulated depreciation for:				
Buildings and improvements	869,875	66,196	-	936,071
Equipment and vehicles	1,552,991	135,392	28,264	1,660,119
Infrastructure, road network	28,850,095	1,201,001	73,522	29,977,574
Total accumulated depreciation	31,272,961	1,402,589	101,786	32,573,764
Total capital assets being depreciated, net	18,509,439			19,686,941
Total capital assets, net	\$19,818,805			\$24,872,297

Water Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 12,306	-	-	\$ 12,306
Construction in progress	50,951	45,946	50,951	45,946
	63,257	45,946	50,951	58,252
Capital assets being depreciated:				
Equipment and vehicles	282,628	32,004	22,075	292,557
Infrastructure	5,667,727	656,027	21,388	6,302,366
Total capital assets being depreciated	5,950,355	688,031	43,463	6,594,923
Less accumulated depreciation for:				
Equipment and vehicles	180,682	23,126	22,075	181,733
Infrastructure, road network	2,695,505	136,220	21,389	2,810,336
Total accumulated depreciation	2,876,187	159,346	43,464	2,992,069

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NOTES TO FINANCIAL STATEMENTS

NOTE 15 – CAPITAL ASSETS – continued

Total capital assets being depreciated, net	<u>3,074,168</u>	<u>3,602,854</u>
Business type activities capital assets, net	<u>\$ 3,137,425</u>	<u>\$ 3,661,106</u>

Communications Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 49,635	-	-	\$ 49,635
Construction in progress	24,065	138,100	-	162,165
	<u>73,700</u>	<u>138,100</u>	<u>-</u>	<u>211,800</u>
Capital assets being depreciated:				
Buildings and improvements	271,793	-	-	271,793
Equipment and vehicles	187,198	10,306	-	197,504
Infrastructure	5,765,399	91,755	115,190	5,741,964
Total capital assets being depreciated	<u>6,224,390</u>	<u>102,061</u>	<u>115,190</u>	<u>6,211,261</u>
Less accumulated depreciation for:				
Buildings and improvements	88,251	10,708	-	98,959
Equipment and vehicles	127,372	10,980	-	138,352
Infrastructure, road network	2,608,393	344,664	47,126	2,905,931
Total accumulated depreciation	<u>2,824,016</u>	<u>366,352</u>	<u>47,126</u>	<u>3,143,242</u>
Total capital assets being depreciated, net	<u>3,400,374</u>			<u>3,068,019</u>
Business type activities capital assets, net	<u>\$ 3,474,074</u>			<u>\$ 3,279,819</u>

Depreciation expense was charged to the following functions:

Proprietary activities:	December 31, 2013	December 31, 2012
Electric	\$ 1,463,635	\$ 1,402,598
Water	195,606	159,346
Communications	345,737	366,352
	<u>\$ 2,004,978</u>	<u>\$ 1,928,287</u>

NOTE 16 – JOINT LEASE AGREEMENT

AMU constructed a distribution system to facilitate the implementation of the data services offered to area residents and businesses. Portions of this system and the office facilities maintained by the Electric utility are leased under a forty-year operating lease, requiring annual payments of \$128,622. As of December 31, 2013 and 2012, \$128,622 in lease payments due under this agreement was included in accounts payable. The future minimum lease payments are as follows:

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NOTES TO FINANCIAL STATEMENTS

NOTE 16 – JOINT LEASE AGREEMENT - continued

<u>Year Ending</u>	
2014	\$ 128,622
2015	128,622
2016	128,622
2017	128,622
2018	128,622
2019-2023	643,110
2024-2028	643,110
2029-2033	643,110
2034-2038	643,110
2039-2043	643,110
Total	<u><u>\$ 3,858,660</u></u>

NOTE 17 – DEFICIT NET POSITION

The Communications Fund has a deficit balance of \$1,651,894 and \$1,424,622 as of December 31, 2013 and 2012 respectively.

NOTE 18 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description. AMU operates a single-employer retiree benefit plan which provides medical/dental benefits for retirees and their spouses. There are 38 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/dental coverage is administered by Wellmark. Retirees receive 1 year of full health/dental benefits for every 10 years of service to AMU, which results in an explicit subsidy. Retirees under age 65 pay the same premium for the medical/dental benefit as active employees, which results in an implicit subsidy. The explicit and implicit subsidies result in an OPEB liability.

Funding Policy. The contribution requirements of plan members are established and may be amended by AMU. AMU currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. AMU's annual OPEB cost is calculated based on the annual required contribution (ARC) of AMU, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

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NOTES TO FINANCIAL STATEMENTS

NOTE 18 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) – continued

The following table shows the components of the AMU’s annual OPEB cost for the year ended December 31, 2013 and 2012, the amount actually contributed to the plan and changes in AMU’s net OPEB obligation:

	Electric	Water	Communications	Total
Annual required contribution	\$ 37,719	\$ 4,881	\$ 15,554	\$ 58,154
Interest on net OPEB obligation	1,509	195	622	2,326
Adjustment to annual required contribution	-	-	-	-
Annual OPEB cost	39,228	5,076	16,176	60,480
Net OPEB obligation beginning of year	157,414	27,979	56,254	241,647
Net OPEB obligation end of year	196,642	33,055	72,340	302,127

For calculation of the net OPEB obligation, the actuary has set the measurement date as December 31, 2012. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the years ended December 31, 2013 and 2012.

For the years ended December 31, 2013 and 2012, AMU did not contribute to the medical plan.

AMU’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the previous three years are as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	\$ 60,480	0%	\$ 302,127
December 31, 2012	\$ 60,525	0%	\$ 241,647
December 31, 2011	\$ 60,374	0%	\$ 181,122

Funded Status and Funding Progress. As of December 31, 2012, the most recent actuarial valuation date for the periods from January 1, 2013 through December 31, 2013 and January 1, 2012 through December 31, 2012, the actuarial accrued liability was \$466,935, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$466,935. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2.0 million and the ratio of the

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NOTES TO FINANCIAL STATEMENTS

NOTE 18 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) - continued

UAAL to covered payroll was 23% for 2013 and 23% for 2012. As of December 31, 2013 and 2012, there were no trust fund assets.

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of December 31, 2012 the actuarial measurement date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on AMU's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Combined Mortality Table Fully Generational. Annual retirement and termination probabilities were developed based on national averages.

Projected claim costs of the medical plan are \$628 per month for retirees less than age 65 and \$331 per month for retirees who have attained age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

NOTE 19 – PRIOR PERIOD ADJUSTMENT

AMU implemented GASB Statement No. 65 during the year ended December 31, 2013. As a result, the financial statements have been restated for 2012 to remove debt issuance costs from the Statement of Net Position.

The changes made to the financial statements are summarized as follows:

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NOTES TO FINANCIAL STATEMENTS

NOTE 19 – PRIOR PERIOD ADJUSTMENT - continued

	Electric Fund	Entity Wide
Beginning net position at January 1, 2012	\$25,340,677	26,800,655
Corrected for GASB No. 65	(186,101)	(186,101)
Beginning net position at January 1, 2012 (as restated)	<u>25,154,576</u>	<u>26,614,554</u>
 Interest expense (as previously reported for 2012)	 323,958	 572,485
Corrected per GASB No. 65	(12,546)	(12,546)
Interest expense (as restated for 2012)	<u>311,412</u>	<u>559,939</u>
 (Decrease) in net position (as prev. reported for 2012)	 (373,014)	 (148,328)
Corrected for GASB No.65	12,546	12,546
(Decrease) in net position (as restated for 2012)	<u>(360,468)</u>	<u>(135,782)</u>

NOTE 18 – SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through July 7, 2014, the date the financial statements were issued.

Required Supplementary Information

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

**BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS
BUDGET AND ACTUAL - ALL PROPRIETARY FUNDS**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2013

	Proprietary Funds Actual	<u>Budgeted Amounts</u> Original	Final to Net Variance
Receipts:			
Charges for service	\$ 15,051,852	\$ 16,799,000	(1,747,148)
Miscellaneous	666,414	547,000	119,414
Other financing sources	850,936	-	850,936
	<u>16,569,202</u>	<u>17,346,000</u>	<u>(776,798)</u>
Disbursements:			
Program			
Business type activities	23,265,192	23,955,200	690,008
Transfers out	-	567,500	567,500
	<u>23,265,192</u>	<u>24,522,700</u>	<u>1,257,508</u>
Change in net assets	(6,695,990)	(7,176,700)	480,710
Balance beginning of year	<u>12,135,715</u>	<u>13,647,716</u>	<u>(1,512,001)</u>
Balance end of year	<u>\$ 5,439,725</u>	<u>\$ 6,471,016</u>	<u>(1,031,291)</u>

The budgetary presentation is based on a comprehensive basis of accounting which is different than that used to prepare the financial statements. The reconciliation from accounting principles generally accepted in the United States used for financial reporting and those used to prepare the budget is presented below.

	Financial Statements	Adjustments	Budgeted Basis
Revenues	\$ 16,198,224	\$ 370,978	\$ 16,569,202
Disbursements	17,147,036	6,118,156	23,265,192
Other financing sources	-	-	-
Increase (decrease) in net position	<u>\$ (948,812)</u>	<u>\$ (5,747,178)</u>	<u>\$ (6,695,990)</u>

See Accompanying Independent Auditor's Report

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

YEAR ENDED DECEMBER 31, 2013

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for each major Proprietary Fund.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the all Proprietary Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
(In Thousands)

Required Supplementary Information

Year Ended December 31	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
		(a)	(b)	(c)	(a/b)	(c)	(b-a)/c
2013	December 31, 2013	-0-	\$467	\$467	0.00%	\$2,019	23.1%
2012	December 31, 2012	-0-	\$467	\$467	0.00%	\$2,000	23.4%
2011	January 1, 2009	-0-	\$412	\$412	0.00%	\$1,900	21.7%
2010	January 1, 2009	-0-	\$412	\$412	0.00%	\$1,800	22.9%
2009	January 1, 2009	-0-	\$412	\$412	0.00%	\$1,682	24.5%

See Note 16 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and net OPEB Obligation, funded status and funding progress.

Supplementary Information

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2013

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
Department of Energy			
Iowa Office of Energy Independence			
Energy Efficiency and Conservation			
Block Grant - ARRA	81.128	3367	16,640
Iowa Association of Municipal Utilities			
State Energy Program - ARRA funded	81.041	EL-13-003	635,132
State Energy Program	81.041	SEP 09025	1,643
Electricity Delivery and Energy			
Reliability, Research, and Analysis	81.122	DE 0000359	183,725
			<u>837,140</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Algona Municipal Utilities and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Other Information

ALGONA MUNICIPAL UTILITIES

Schedule 1

**ELECTRIC DEPARTMENT
COMPARATIVE SUMMARIES OF ELECTRICITY DISTRIBUTED AND BILLED
YEAR ENDED DECEMBER 31,**

	2013	2012	2011
Sale of electricity:			
Sales to consumers	\$ 8,621,514	\$ 7,914,391	\$ 7,294,060
Sales to other utilities	152,988	137,668	158,513
Sales for resale	2,587,362	2,523,878	2,611,900
	<hr/>	<hr/>	<hr/>
Total electricity sales	11,361,864	10,575,937	10,064,473
	<hr/>	<hr/>	<hr/>
Kilowatt hours:			
Wind generation	5,302,144	4,967,953	5,039,658
Generated	104,354,295	146,943,092	136,291,041
Purchases	69,236,854	47,893,669	40,330,486
System losses (transmission)	(3,525,927)	(3,433,574)	(3,276,633)
Available for sale	175,367,366	196,371,140	178,384,552
	<hr/>	<hr/>	<hr/>
Billed to consumers	113,882,975	111,282,762	105,640,353
Sales to other utilities	4,565,363	4,056,330	4,572,294
Sales for resale	57,534,422	76,950,778	64,123,797
Distribution loss	4,384,606	4,081,270	4,048,108
Distribution loss percent	3.72%	3.42%	3.54%
	<hr/>	<hr/>	<hr/>
Revenue billed per kWh to consumers	\$ 0.0757	\$ 0.0711	\$ 0.0690
	<hr/>	<hr/>	<hr/>
Peak hour demand in kilowatts	24,440	24,950	23,950
Services provided to the City			
Street lighting:			
Energy	\$ 35,855	\$ 34,123	\$ 63,663
Operation and Maintenance	12,963	11,211	15,812
	<hr/>	<hr/>	<hr/>
	48,818	45,334	79,475
Other Maintenance Costs	4,607	3,743	8,233
Energy for Public Buildings, Parks and Other uses	117,132	103,545	94,850
	<hr/>	<hr/>	<hr/>
	\$ 170,557	\$ 152,622	\$ 182,558
	<hr/>	<hr/>	<hr/>
Year to date kWh sales			
Residential	31,286,298	31,256,589	31,717,225
Commercial	82,965,103	80,287,411	74,234,568
Area Lighting	632,209	639,629	1,242,163
Station Power	1,881,600	1,899,860	1,749,218
City	1,683,128	1,255,603	1,269,473
	<hr/>	<hr/>	<hr/>
Total number of kWh sales	118,448,338	115,339,092	110,212,647
	<hr/>	<hr/>	<hr/>

Unaudited - See Accompanying Independent Auditor's Report

ALGONA MUNICIPAL UTILITIES

Schedule 2

**WATER DEPARTMENT
COMPARATIVE SUMMARIES OF WATER PUMPED AND BILLED
YEAR ENDED DECEMBER 31,**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total revenue billed	<u>\$ 1,040,062</u>	<u>\$ 998,132</u>	<u>\$ 895,033</u>
Cubic Foot			
Pumped	37,757,057	38,618,214	40,116,171
Billed	31,358,210	33,361,070	30,833,241
City of Algona	323,846	351,675	936,332
System loss	6,075,001	4,905,469	8,346,598
Percent loss	16.09%	12.70%	20.81%
Revenue billed per cubic foot	\$ 0.0328	\$ 0.0296	\$ 0.0282
Peak day-cubic footage pumped	196,631	203,128	173,133
Services provided to City			
Water for parks, disposal plant and public buildings	\$ 11,862	\$ 11,318	\$ 20,952
Public fire protection	29,857	19,690	19,620
	<u>\$ 41,719</u>	<u>\$ 31,008</u>	<u>\$ 40,572</u>

Unaudited - See Accompanying Independent Auditor's Report

ALGONA MUNICIPAL UTILITIES

Schedule 3

**COMMUNICATIONS
COMPARATIVE SUMMARIES OF CABLE, INTERNET, AND TELEPHONE
YEAR ENDED DECEMBER 31,**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenue:			
Cable TV	\$ 1,127,858	\$ 1,123,865	\$ 1,103,906
Internet	869,872	832,871	806,180
Telephone	1,097,994	1,317,666	1,284,177
Cell phone	11,546	66,810	62,631
Miscellaneous	<u>95,850</u>	<u>116,434</u>	<u>108,940</u>
Total operating revenue	<u><u>\$ 3,203,120</u></u>	<u><u>\$ 3,457,646</u></u>	<u><u>\$ 3,365,834</u></u>
Customers			
Cable TV	1,858	1,873	1,911
Internet	1,873	1,836	1,784
Telephone	1,529	1,580	1,632
Cell phone	446	512	532
Average monthly revenue per customer			
Cable TV	50.59	50.00	48.14
Internet	38.70	37.80	37.66
Telephone	59.84	69.50	65.57
Services provided to City			
Cable TV	\$ 1,786	\$ 1,786	\$ 1,786
Internet	4,652	4,470	4,378
Telephone	<u>931</u>	<u>957</u>	<u>1,143</u>
	<u><u>\$ 7,369</u></u>	<u><u>\$ 7,213</u></u>	<u><u>\$ 7,307</u></u>

Unaudited - See Accompanying Independent Auditor's Report



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees of the
Algona Municipal Utilities:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund of Algona Municipal Utilities, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise AMU's basic financial statements, and have issued our report thereon dated July 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Algona Municipal Utilities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Algona Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Algona Municipal Utilities' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. No material weaknesses in internal control were noted. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Algona Municipal Utilities' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Algona Municipal Utilities' response to Findings

Algona Municipal Utilities' responses to the immaterial instances of non-compliance noted in the preceding paragraph are described in the accompanying schedule of findings and questioned costs. Algona Municipal Utilities' responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

JP Anderson & Company, PC

July 7, 2014



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL
AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC UTILITIES**

To the Board of Trustees of the
Algona Municipal Utilities:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund of Algona Municipal Utilities, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise AMU's basic financial statements, and have issued our report thereon dated July 7, 2014. In accordance with Government Auditing Standards, we have also issued our report dated July 7, 2014, on our consideration of Algona Municipal Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements.

In connection with our audit, nothing came to our attention that caused us to believe that Algona Municipal Utilities failed to comply with the terms, covenants, provisions, or conditions of their grant as set forth in 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Borrowers, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as encumbered below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Algona Municipal Utilities' noncompliance with the above referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Algona Municipal Utilities' accounting and records to indicate that Algona Municipal Utilities did not:

- Continue to utilize the Rural Development Grant proceeds to operate a revolving loan program
- Manage, operate and maintain the fund in an efficient and economic manner.
- Maintain at its premises an accounting available for review of the revolving loan fund records, including loans made and payments received on those loans
- Provide Rural Development a Survey of Recipients of Rural Economic Development Loan and Grant Program within the prescribed time frame
- Provide a report to Rural Development regarding loan activity, including a list of the projects funded, the amount financed for each project, the repayment terms, and whether each project financed has been completed within the prescribed time frame

- Continue to have fidelity bond coverage on individuals who have access to the revolving loan program funds

The purpose of this report is intended solely for the information and use of the board of trustees, management, and RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

JP Anderson & Company, PC

July 7, 2014



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Independent Auditor's Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

To the Board of Trustees of
Algona Municipal Utilities

Report on Compliance for Each Major Federal Program

We have audited Algona Municipal Utilities' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Algona Municipal Utilities' major federal programs for the year ended December 31, 2013. Algona Municipal Utilities' major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Algona Municipal Utilities' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Algona Municipal Utilities' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Algona Municipal Utilities compliance.

Opinion on Each Major Federal Program

In our opinion, Algona Municipal Utilities complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of Algona Municipal Utilities is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Algona Municipal Utilities' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Algona Municipal Utilities' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

JP Anderson & Company, PC

July 7, 2014

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Audit Finding II-A-12 – No material adjustments were needed in the current year audit. This finding was addressed.

Audit Finding III-A-12 – AMU tracked its federal award expenditures and we did not uncover any additional required audit procedures. This finding was addressed.

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

SCHEDULE OF FINDINGS and QUESTIONED COSTS

Part I: Summary of the Independent Auditor's Results

- (a) Unmodified opinions were issued on the financial statements for each major fund.
- (b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses over the major federal program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The major program was CFDA Number 81.041 – State Energy Program. The major program included the expenditure of ARRA dollars.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Algona Municipal Utilities did not qualify as a low-risk auditee.

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

SCHEDULE OF FINDINGS and QUESTIONED COSTS

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

MATERIAL WEAKNESSES:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

Instances of Non-Compliance:

**CFDA Number 81.041: State Energy Program
Pass-through Agency Number: EL-13-003
Federal Award Year: 2013
U.S. Department of Energy
Passed through the Iowa Association of Municipal Utilities**

No matters were noted.

MATERIAL WEAKNESSES:

No matters were noted

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

SCHEDULE OF FINDINGS and QUESTIONED COSTS

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-13 Certified Budget - Disbursements for the year ended December 31, 2013 were within the budgeted limits.
- IV-B-13 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-13 Travel Expense – No disbursements of AMU money for travel expenses of spouses of Utility officials or employees were noted.
- IV-D-13 Business Transactions – We noted that transactions conducted with a business related to one of the trustees amounted to \$1,251 for the year ended December 31, 2013. This is below the threshold for governments in Cities the size of Algona.
- IV-E-13 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-13 Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not.
- IV-G-13 Revenue Bonds – Chapter 384 of the Iowa Code states in part, “before the governing body institutes proceedings for the issuance of revenue bonds, it shall fix a time and place of meeting at which it proposes to take action and give notice by publication”. This notice and the related public hearing were not held prior to entering the Energy Management Improvement Loan with IAMU.

Cause – The Iowa Code section refers to revenue bonds and not energy improvement loans and this difference caused AMU to miss this requirement.

Effect – The Energy Management Improvement Loan with IAMU was not issued in compliance with Section 384 of the Code of Iowa.

Recommendation – You should consult with your attorney to see what action, if any, is necessary to address this issue.

Response and Corrective Action Plan – We consulted with our attorney and held a public hearing on June 18, 2014 to correct this issue.

Conclusion – Response and Corrective Action Plan is accepted.

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

SCHEDULE OF FINDINGS and QUESTIONED COSTS

Part IV: Other Findings Related to Statutory Reporting - continued:

- IV-H-13 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.
- IV-I-13 Telecommunication Services – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted.
- IV-J-13 Financial Condition – The Communications Fund had a deficit fund balance of \$1,651,894 at December 31, 2013.

Recommendation – AMU should investigate alternatives to eliminate the deficit in order to return this fund to a sound financial position.

Response – AMU is and has been conducting rate studies reviewing options to eliminate the deficit.

Conclusion – Response accepted.